

**COLO-NESCO
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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COLO-NESCO COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Gary Hendrick	President	2003
Paul Sparrow		2005
Greg Voga		2004
Paul Mens		2003
Kim Nelson		2003
Dan Sowers		2004
Mark Johnson		2005

(After September, 2003 Election)

Paul Sparrow	President	2005
Greg Voga		2004
John Farrall		2006
Paul Mens		2006
Kim Nelson		2006
Dan Sowers		2004
Mark Johnson		2005

SCHOOL OFFICIALS

Gary Pillman	Superintendent
Corinne Olson	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Colo-Nesco Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Colo-Nesco Community School District, Conrad, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Colo-Nesco Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11 to the financial statements, during the year ended June 30, 2004, Colo-Nesco Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 15, 2004 on our consideration of Colo-Nesco Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Colo-Nesco Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

September, 15, 2004

COLO-NESCO COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Colo-Nesco Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,327,356 in fiscal year 2003 to \$4,331,230 in fiscal year 2004 due to the state funding cuts to the schools.
- General Fund expenditures increased from \$4,074,049 in fiscal year 2003 to \$4,164,455 in fiscal year 2004. The increase in General Fund expenditures was due primarily to an increase in salary and benefits and specifically the health insurance costs.
- The General Fund balance has increased due to a reduction in discretionary expenditures. The General Fund balance increased over \$165,000 in Fiscal year 2004, a 74% increase.
- Even though the interest rates are still low, the interest earnings in the General Fund have increased from \$4,503 in 2003 to \$10,262 in 2004 due to carrying a higher balance in the account.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Colo-Nesco Community School District

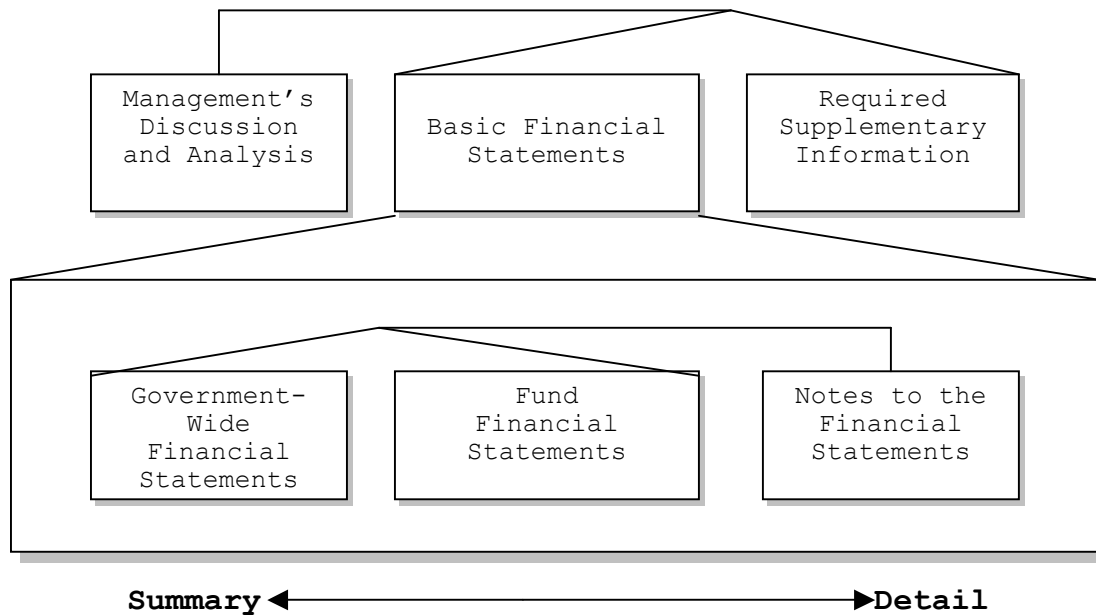


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the Government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds, monies held by the District for outside groups.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Current assets	5,417	2,926	40	6	5,457	2,932	86.12%
Capital assets	2,542	2,620	30	3	2,572	2,623	-1.94%
Total assets	<u>7,959</u>	<u>5,546</u>	<u>70</u>	<u>9</u>	<u>8,029</u>	<u>5,555</u>	<u>44.54%</u>
Current liabilities	4,497	2,224	-	-	4,497	2,224	102.20%
Non-current liabilities	17	34	-	-	17	34	-50.00%
Total liabilities	<u>4,514</u>	<u>2,258</u>	<u>-</u>	<u>-</u>	<u>4,514</u>	<u>2,258</u>	<u>99.91%</u>
Net Assets							
Invested in capital assets, net of related debt	2,525	2,586	30	3	2,555	2,589	-1.31%
Restricted	528	417	-	-	528	417	26.62%
Unrestricted	392	285	40	6	432	291	48.45%
Total net assets	<u>3,445</u>	<u>3,288</u>	<u>70</u>	<u>9</u>	<u>3,515</u>	<u>3,297</u>	<u>6.61%</u>

Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, complete prior year comparisons are not available but will be provided in all subsequent years.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	165	304	469
Operating grants, contributions and restricted interest	687	68	755
General revenues:			
Property tax	1,713	-	1,713
Income surtax	210	-	210
Local option sales tax	416	-	416
Unrestricted state grants	1,784	-	1,784
Unrestricted investment earnings	17	-	17
Other	15	-	15
Total revenues	<u>5,007</u>	<u>372</u>	<u>5,379</u>
Program expenses:			
Governmental activities:			
Instruction	2,898	-	2,898
Support Services	1,244	-	1,244
Non-instructional programs	26	344	370
Other expenses	682	-	682
Total expenses	<u>4,850</u>	<u>344</u>	<u>5,194</u>
Change in net assets	<u>157</u>	<u>28</u>	<u>185</u>

Property tax and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 80% of the total expenses.

GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were \$5,006,357 and expenses were \$4,809,193.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	2,898	2,222
Support Services	1,244	1,232
Non-instructional programs	26	26
Other expenses	<u>682</u>	<u>518</u>
Totals	<u><u>4,850</u></u>	<u><u>3,998</u></u>

- The cost financed by users of the District's programs was \$165,553.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$557,215.
- The net cost of governmental activities was financed with \$1,713,068 in property tax, \$1,783,985 in state foundation aid, and \$16,991 in interest income.

Proprietary-type Funds

Revenues for the District's School Nutrition Fund were \$218,108 and expenses were \$207,395. The revenues include charges for services, contributions, and federal and state reimbursements. The fund balance increased by over \$10,000 during the year.

The District's Child Care Fund increased by almost \$17,000. Increased revenues while being able to monitor labor costs accounted for the positive result.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Colo-Nesco Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$3,445,783, which is five percent greater than last year's ending fund balance of \$3,288,232 the largest portion of this increase was in the General Fund.

Governmental Fund Highlights

Several factors contributed to the small increase of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- The District generates over \$250,000 in instructional support levy revenues. These monies are being used to strengthen the General Fund balance, as well as, preserving and expanding educational opportunities.
- An across-the-board cut by the Governor in state aid reduced revenues in the General Fund during the year. Due to the timing of the cut, little could be done in the way of corresponding expense reductions.
- Increased spending was almost entirely attributable to instruction and support service programs. Administration costs increased by one percent only.

Proprietary Fund Highlights

School Nutrition Fund net assets increased by over \$10,000 in Fiscal 2004. Child Care Fund net assets increased primarily due to increased revenue usage of the facility continue to grow.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

Actual revenues were \$160,000 less than budgeted, primarily due to the mid-year cut in state funding.

CAPITAL ASSETS

The District has invested more than \$5 million by the end of fiscal year 2004 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all three facilities during the year. Total depreciation expenses for the year exceeded \$140,000.

Long Term Debt

The District had only \$17,000 remaining on a bus note that will be paid in fiscal year 2005.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed in September 2002 and money began to be received by the District in September 2003.
- The Instructional Support Levy was passed in 2001 and money began to be received by the District in the 2003-04 school year.
- The District has experienced declining enrollment the past several years and this has forced and continues to force us to reduce our work force.
- For the 2003-04 school year the state cut the District's budget by 2.5%. This was an across the board cut, effecting Phase I & II and Teacher Compensation as well as other areas. This forced the District to make cuts. Future state aid cuts have also been discussed. Cuts made during the fiscal year negatively impact the District's balances as adequate expense reductions are not possible.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). A solution need to be found.
- Health insurance continues to be a very costly item to the District. Our single health insurance has increased 243% over the past ten (10) years. Even though concessions have been by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.

- Once again unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gary Pillman, Superintendent, Colo-Nesco Community School District, 400 Latrobe Avenue, McCallsburg, IA 50154.

Basic Financial Statements

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,220,579	2,391	1,222,970
ISCAP investments	2,005,281	-	2,005,281
Receivables:			
Property tax:			
Current year	12,343	-	12,343
Succeeding year	1,774,153	-	1,774,153
Income surtax - succeeding year	207,026	-	207,026
Interfund receivable	80,750	-	80,750
Due from other governments	89,744	-	89,744
Other receivables	23,700	11,211	34,911
ISCAP accrued interest receivable	3,796	-	3,796
Inventories	-	2,508	2,508
Capital assets, net of accumulated depreciation	2,542,046	2,448	2,544,494
Total assets	7,959,418	18,558	7,977,976
Liabilities			
Accounts payable	121,156	704	121,860
Salaries and benefits payable	378,333	27,624	405,957
Interfund payables	-	80,750	80,750
Deferred revenue:			
Succeeding year property tax	1,774,153	-	1,774,153
Succeeding year income surtax	207,026	-	207,026
ISCAP warrants payable	2,010,000	-	2,010,000
ISCAP accrued interest payable	5,756	-	5,756
Long-term liabilities:			
Portion due within one year:			
Bus note payable	17,211	-	17,211
Total liabilities	4,513,635	109,078	4,622,713
Net assets			
Invested in capital assets, net of related debt	2,524,835	2,448	2,527,283
Restricted for:			
Management levy	385,775	-	385,775
Student activities	68,400	-	68,400
Physical plant and equipment levy	37,901	-	37,901
Capital projects	36,249	-	36,249
Unrestricted	392,623	(92,968)	299,655
Total net assets	3,445,783	(90,520)	3,355,263

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Expenses	Program Revenues		Governmental Activities	Business-Type Activities	Total
		Charges for Service	Operating Grants, Contributions and Restricted Interest			
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	1,876,448	134,903	223,987	(1,517,558)	-	(1,517,558)
Special instruction	639,269	30,650	158,574	(450,045)	-	(450,045)
Other instruction	382,173	-	127,390	(254,783)	-	(254,783)
	<u>2,897,890</u>	<u>165,553</u>	<u>509,951</u>	<u>(2,222,386)</u>	<u>-</u>	<u>(2,222,386)</u>
Support services:						
Student services	12,303	-	5,688	(6,615)	-	(6,615)
Instructional staff services	61,545	-	-	(61,545)	-	(61,545)
Administration services	551,332	-	-	(551,332)	-	(551,332)
Operation and maintenance of plant services	397,724	-	4,597	(393,127)	-	(393,127)
Transportation services	221,508	-	2,555	(218,953)	-	(218,953)
	<u>1,244,412</u>	<u>-</u>	<u>12,840</u>	<u>(1,231,572)</u>	<u>-</u>	<u>(1,231,572)</u>
Non-instructional programs:						
Community service & education	25,767	-	-	(25,767)	-	(25,767)
Other expenditures:						
AEA flowthrough	162,887	-	162,887	-	-	-
Long-term debt interest	1,598	-	-	(1,598)	-	(1,598)
Facilities acquisition and construction	376,861	-	943	(375,918)	-	(375,918)
Depreciation (unallocated)*	140,722	-	-	(140,722)	-	(140,722)
	<u>682,068</u>	<u>-</u>	<u>163,830</u>	<u>(518,238)</u>	<u>-</u>	<u>(518,238)</u>
Total governmental activities	4,850,137	165,553	686,621	(3,997,963)	-	(3,997,963)

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues				
		Charges for	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Expenses	Service				Total
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs:					
Proprietary funds	344,752	304,332	68,120	-	27,700
					27,700
Total	5,194,889	469,885	754,741	(3,997,963)	27,700
					(3,970,263)
General revenues:					
Property tax levied for:					
General purposes				1,582,229	-
Management				74,291	-
Capital outlay				56,548	-
Income surtax				210,048	-
Local option sales tax				416,128	-
Unrestricted state grants				1,783,985	-
Unrestricted investment earnings				16,991	-
Other				15,294	-
					15,294
Total general revenue				4,155,514	-
					4,155,514
Change in net assets				157,551	27,700
					185,251
Net assets beginning of year, as restated (note 11)				3,288,232	(118,220)
					3,170,012
Net assets end of year				3,445,783	(90,520)
					3,355,263

* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	680,802	71,871	467,906	1,220,579
ISCAP investments	2,005,281	-	-	2,005,281
Receivables:				
Property tax:				
Current year	11,373	-	970	12,343
Succeeding year	1,641,469	-	132,684	1,774,153
Income surtax - succeeding year	207,026	-	-	207,026
Interfund receivable	80,750	-	-	80,750
Due from other governments	19,587	70,157	-	89,744
Other receivables	500	-	23,200	23,700
ISCAP accrued interest receivable	3,796	-	-	3,796
Total assets	<u>4,650,584</u>	<u>142,028</u>	<u>624,760</u>	<u>5,417,372</u>
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	15,377	105,779	-	121,156
Salaries and benefits payable	378,333	-	-	378,333
ISCAP warrants payable	2,010,000	-	-	2,010,000
ISCAP accrued interest payable	5,756	-	-	5,756
Deferred revenue:				
Succeeding year property tax	1,641,469	-	132,684	1,774,153
Succeeding year income surtax	207,026	-	-	207,026
Total liabilities	<u>4,257,961</u>	<u>105,779</u>	<u>132,684</u>	<u>4,496,424</u>
Fund balances:				
Reserved for capital projects	-	36,249	-	36,249
Unreserved	392,623	-	492,076	884,699
Total fund equity and other credits	<u>392,623</u>	<u>36,249</u>	<u>492,076</u>	<u>920,948</u>
Total liabilities and fund balances	<u>4,650,584</u>	<u>142,028</u>	<u>624,760</u>	<u>5,417,372</u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 920,948
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,542,046
Long-term liabilities, including bus note payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(17,211)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 3,445,783</u></u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources					
Local tax	1,792,277	416,128	-	130,839	2,339,244
Tuition	162,825	-	-	-	162,825
Other	33,682	636	-	128,770	163,088
State sources	2,182,239	-	-	85	2,182,324
Federal sources	158,876	-	-	-	158,876
Total revenues	<u>4,329,899</u>	<u>416,764</u>	<u>-</u>	<u>259,694</u>	<u>5,006,357</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,867,277	-	-	9,171	1,876,448
Special instruction	639,269	-	-	-	639,269
Other instruction	268,036	-	-	114,137	382,173
	<u>2,774,582</u>	<u>-</u>	<u>-</u>	<u>123,308</u>	<u>2,897,890</u>
Support services:					
Student services	12,293	-	-	10	12,303
Instructional staff services	61,535	-	-	10	61,545
Administration services	510,860	3,240	-	37,232	551,332
Operation and maintenance of plant services	395,609	-	-	2,115	397,724
Transportation services	220,922	-	-	51,085	272,007
	<u>1,201,219</u>	<u>3,240</u>	<u>-</u>	<u>90,452</u>	<u>1,294,911</u>
Non-instructional programs:					
Community service & education	<u>25,767</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,767</u>
Other expenditures:					
AEA flowthrough	162,887	-	-	-	162,887
Long-term debt:					
Principal	-	-	36,787	-	36,787
Interest	-	-	1,598	-	1,598
Facilities acquisition and construction	-	377,275	-	12,078	389,353
	<u>162,887</u>	<u>377,275</u>	<u>38,385</u>	<u>12,078</u>	<u>590,625</u>
Total expenditures	<u>4,164,455</u>	<u>380,515</u>	<u>38,385</u>	<u>225,838</u>	<u>4,809,193</u>

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over over (under) expenditures	<u>165,444</u>	<u>36,249</u>	<u>(38,385)</u>	<u>33,856</u>	<u>197,164</u>
Other financing sources (uses):					
Sale of materials and equipment	1,331	-	-	-	1,331
Operating transfers in	-	-	38,385	-	38,385
Operating transfers (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,385)</u>	<u>(38,385)</u>
	<u>1,331</u>	<u>-</u>	<u>38,385</u>	<u>(38,385)</u>	<u>1,331</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	166,775	36,249	-	(4,529)	198,495
Fund balances beginning of year, as restated (note 11)	<u>225,848</u>	<u>-</u>	<u>-</u>	<u>496,605</u>	<u>722,453</u>
Fund balances end of year	<u><u>392,623</u></u>	<u><u>36,249</u></u>	<u><u>-</u></u>	<u><u>492,076</u></u>	<u><u>920,948</u></u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ 198,495

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	62,991	
Depreciation expense	<u>(140,722)</u>	(77,731)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Bus note payable	16,413	
Early retirement	<u>20,374</u>	<u>36,787</u>

Change in net assets of governmental activities (Exhibit B) \$ 157,551

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets

Proprietary Funds

June 30, 2004

	School Nutrition	Child Care	Total
	\$	\$	
Assets			
Cash and pooled investments	2,391	-	2,391
Other receivables	-	11,211	11,211
Inventories	2,508	-	2,508
Capital assets, net of accumulated depreciation	2,448	-	2,448
Total assets	<u>7,347</u>	<u>11,211</u>	<u>18,558</u>
Liabilities			
Accounts payable	50	654	704
Accrued salary and benefits	15,955	11,669	27,624
Interfund payable	-	80,750	80,750
Total liabilities	<u>16,005</u>	<u>93,073</u>	<u>109,078</u>
Net assets			
Invested in capital assets, net of related debt	2,448	-	2,448
Unrestricted	(11,106)	(81,862)	(92,968)
Total net assets	<u>(8,658)</u>	<u>(81,862)</u>	<u>(90,520)</u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year ended June 30, 2004

	School Nutrition	Child Care	Total
	\$		
Operating revenue:			
Local sources:			
Charges for services	149,988	154,344	304,332
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	76,656	-	76,656
Benefits	29,091	-	29,091
Services	2,206	-	2,206
Supplies	98,953	-	98,953
Depreciation	489	-	489
	207,395	-	207,395
Other enterprise operations:			
Salaries	-	111,659	111,659
Benefits	-	20,263	20,263
Services	-	1,158	1,158
Supplies	-	3,248	3,248
Property	-	999	999
Other	-	30	30
	-	137,357	137,357
Total operating expenses	207,395	137,357	344,752
Operating profit (loss)	(57,407)	16,987	(40,420)
Non-operating revenues:			
State sources	2,703	-	2,703
Federal sources	65,417	-	65,417
	68,120	-	68,120
Change in net assets	10,713	16,987	27,700
Net assets beginning of year	(19,371)	(98,849)	(118,220)
Net assets end of year	(8,658)	(81,862)	(90,520)

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2004

	School Nutrition	Community Education	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	149,988	144,645	294,633
Cash payments to employees for services	(105,758)	(127,034)	(232,792)
Cash payments to suppliers for goods or services	(87,730)	(5,121)	(92,851)
Net cash provided by (used in) operating activities	(43,500)	12,490	(31,010)
Cash flows from non-capital financing activities:			
State grants received	2,703	-	2,703
Federal grants received	53,545	-	53,545
Net cash provided by non-capital financing activities	56,248	-	56,248
Net increase (decrease) in cash and cash equivalents	12,748	12,490	25,238
Cash and cash equivalents beginning of year	(10,357)	(93,240)	(103,597)
Cash and cash equivalents end of year	2,391	(80,750)	(78,359)
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(57,407)	16,987	(40,420)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	489	-	489
Commodities used	11,872	-	11,872
(Increase) in other receivables	-	(9,699)	(9,699)
Decrease in inventory	1,925	-	1,925
Increase (decrease) in accounts payable	(368)	314	(54)
Increase (decrease) in accrued payroll and benefits	(11)	4,888	4,877
	(43,500)	12,490	(31,010)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	2,391	(80,750)	(78,359)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$11,872.

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Agency Funds
	<hr/>
	\$
Assets	
Cash	<hr/>
	3,268
Total assets	<hr/>
	3,268
Liabilities:	
Other payables	<hr/>
	3,268
Net assets	<hr/>
	-

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Colo-Nesco Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Colo, McCallsburg and Zearing, Iowa, and agricultural area in Story, Marshall and Hardin Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Colo-Nesco Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Colo-Nesco Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Story County Assessor Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. the District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for other groups. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of its operations.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Interfund receivable/payable - The General Fund is deemed to have loaned the Child Care Fund \$80,750 to cover a cash deficit in a joint checking account.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2004.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures in the Instruction and Support Services functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 11)	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	34,857	-	-	34,857
Capital assets being depreciated:				
Land improvements	358,933	12,492	-	371,425
Buildings	2,654,806	-	-	2,654,806
Furniture and Equipment	2,656,945	50,499	-	2,707,444
Total capital assets being depreciated	5,670,684	62,991	-	5,733,675
Less accumulated depreciation for:				
Land improvements	117,300	55	-	117,355
Buildings	1,477,388	43,496	-	1,520,884
Furniture and Equipment	1,491,076	97,171	-	1,588,247
Total accumulated depreciation	3,085,764	140,722	-	3,226,486
Total capital assets being depreciated, net	2,584,920	(77,731)	-	2,507,189
Governmental activities, capital assets, net	2,619,777	(77,731)	-	2,542,046

	Balance Beginning of Year, as restated (note 11)	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	67,496	5,349	-	72,845
Less accumulated depreciation	<u>38,057</u>	<u>4,892</u>	<u>-</u>	<u>42,949</u>
Business type activities capital assets, net	<u>29,439</u>	<u>457</u>	<u>-</u>	<u>29,896</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Unallocated 140,722

Business Type activities:

Food service operations 4,892

(4) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	Bus Note Payable
Balance beginning of year	\$33,624
Additions	-
Reductions	<u>16,413</u>
Balance end of year	<u>\$17,211</u>

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$144,357, \$145,657, and \$153,764 respectively, equal to the required contributions for each year.

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$162,887 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Bus Note Payable

In the fiscal year ending June 30, 2004, the District purchased a bus for \$51,635. The terms were one third down and two annual payments of \$18,011 each. Payments are to be made from the District's Physical Plant and Equipment Levy. Details of the bus note at June 30, 2004 are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	4.72%	<u>\$17,211</u>	<u>800</u>	<u>18,011</u>

(8) Financial Condition

The District's Enterprise Fund - School Nutrition had a net assets deficit of \$8,658 at June 30, 2004. The District's Enterprise Fund - Child Care had a net assets deficit of \$81,862 at June 30, 2004.

(9) Commitments

The District approved bids in June, 2004 to remodel the middle school music room. Total amount is estimated to be \$271,110.

The District has a five year commitment to borrow up to \$450,000 using capital loan notes secured by sales tax and Physical Plant and Equipment revenues. There was no balance outstanding on this loan at June 30, 2004.

(10) Risk Management

Colo-Nesco Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

Each member's contributions to ISEBA funds current operations and provided capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$241,590.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Colo-Nesco Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Governmental Accounting Standards Board (GASB) Statement Number 38, Certain Financial Statement Note Disclosure, requires certain disclosures be made in the notes to the financial statements concurrent with the implementation of Statement Number 34.

The District-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	Fund		Total
	General	Nonmajor Special Revenues	
Net assets, June 30, 2003, as previously reported	\$225,848	476,231	702,079
GASB Interpretation 6 adjustments	-	20,374	20,374
Net assets, July 1, 2003, as restated for governmental funds	<u>\$225,848</u>	<u>496,605</u>	722,453
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$3,075,764			2,619,777
Long-Term Liabilities:			
Early retirement payable		(20,374)	
Bus note payable		<u>(33,624)</u>	<u>(53,998)</u>
Net assets, July 1, 2003, as restated			<u>\$3,288,232</u>

Required Supplementary Information

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Original</u>	<u>Final</u>	<u>Variance -</u>
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	2,665,157	304,332	2,969,489	3,022,853	3,022,853	(53,364)
State sources	2,182,324	2,703	2,185,027	2,321,570	2,321,570	(136,543)
Federal sources	158,876	65,417	224,293	194,305	194,305	29,988
Total receipts	<u>5,006,357</u>	<u>372,452</u>	<u>5,378,809</u>	<u>5,538,728</u>	<u>5,538,728</u>	<u>(159,919)</u>
Disbursements:						
Instruction	2,897,890	-	2,897,890	3,028,274	3,028,274	130,384
Support services	1,294,911	-	1,294,911	1,323,998	1,323,998	29,087
Non-instructional programs	25,767	344,752	370,519	392,475	392,475	21,956
Other expenditures	590,625	-	590,625	701,347	701,347	110,722
Total disbursements	<u>4,809,193</u>	<u>344,752</u>	<u>5,153,945</u>	<u>5,446,094</u>	<u>5,446,094</u>	<u>292,149</u>
Excess (deficiency) of receipts over (under) disbursements	197,164	27,700	224,864	92,634	92,634	132,230
Other financing sources (uses)	<u>1,331</u>	<u>-</u>	<u>1,331</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	198,495	27,700	226,195	92,634	92,634	132,230
Balance beginning of year	<u>722,453</u>	<u>(118,220)</u>	<u>604,233</u>	<u>598,893</u>	<u>598,893</u>	<u>5,340</u>
Balance end of year	<u><u>920,948</u></u>	<u><u>(90,520)</u></u>	<u><u>830,428</u></u>	<u><u>691,527</u></u>	<u><u>691,527</u></u>	<u><u>137,570</u></u>

See accompanying independent auditor's report.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functions expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Expenditures did not exceed the amounts budgeted in any of the four functions.

Other Supplementary Information

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	385,241	68,400	14,265	467,906
Property tax receivable:				
Current year	534	-	436	970
Succeeding year	85,000	-	47,684	132,684
Due from other governments	-	-	23,200	23,200
Total assets	<u>470,775</u>	<u>68,400</u>	<u>85,585</u>	<u>624,760</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	85,000	-	47,684	132,684
Fund equity:				
Unreserved, undesignated fund balance	<u>385,775</u>	<u>68,400</u>	<u>37,901</u>	<u>492,076</u>
Total liabilities and fund equity	<u>470,775</u>	<u>68,400</u>	<u>85,585</u>	<u>624,760</u>

See accompanying independent auditor's report.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	74,291	-	56,548	130,839
Other	4,551	123,951	268	128,770
State sources	46	-	39	85
Total revenues	<u>78,888</u>	<u>123,951</u>	<u>56,855</u>	<u>259,694</u>
Expenditures:				
Instruction:				
Regular instruction	9,171	-	-	9,171
Co-curricular instruction	-	114,137	-	114,137
Support services:				
Student support	10	-	-	10
Instructional support	10	-	-	10
Administration services	37,213	-	19	37,232
Plant operation and maintenance	2,115	-	-	2,115
Student transportation	586	-	50,499	51,085
Other expenditures:				
Facility acquisition and construction services	280	-	11,798	12,078
Total expenditures	<u>49,385</u>	<u>114,137</u>	<u>62,316</u>	<u>225,838</u>
Excess (deficiency) of revenues over (under) expenditures	29,503	9,814	(5,461)	33,856
Other financing (uses):				
Operating transfers (out)	<u>(20,374)</u>	<u>-</u>	<u>(18,011)</u>	<u>(38,385)</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	9,129	9,814	(23,472)	(4,529)
Fund balances beginning of year, as restated (note 11)	<u>376,646</u>	<u>58,586</u>	<u>61,373</u>	<u>496,605</u>
Balance end of year	<u><u>385,775</u></u>	<u><u>68,400</u></u>	<u><u>37,901</u></u>	<u><u>492,076</u></u>

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
All Athletics	14,777	8,607	14,193	9,191
Basketball	11,880	12,643	6,375	18,148
Soccer	855	4,107	4,930	32
Track	(1,978)	1,978	-	-
Cross Country	(1,341)	1,341	-	-
Golf	(671)	671	-	-
Football	6,681	11,074	10,721	7,034
Baseball	(359)	1,520	1,855	(694)
Wrestling	412	328	11	729
Volleyball	2,901	3,796	3,352	3,345
Softball	(1,199)	3,105	2,062	(156)
Drama	3,269	2,100	1,960	3,409
Musical	742	309	10	1,041
Vocal/Instrumental	763	1,396	1,929	230
Band Uniforms	(100)	-	-	(100)
HS Student Pictures	1,240	-	-	1,240
Student Council	1,291	6,818	2,687	5,422
C-N FFA	4,065	16,763	16,683	4,145
Yearbook	(6,127)	1,015	3,269	(8,381)
Cheerleading	530	2,295	1,150	1,675
Band Resale	(1,660)	-	445	(2,105)
Spanish Club	4,071	2,653	1,786	4,938
Art Club	774	595	375	994
Anglo-Norman Club	74	-	-	74
C-N Drill Team	(323)	876	1,887	(1,334)
Class of 2002	125	-	-	125
Class of 2003	9	-	-	9
Class of 2004	1,699	-	881	818
Class of 2005	352	14,987	12,575	2,764
Class of 2006	350	-	-	350
Class of 2007	-	315	-	315
MS Student Pictures	7	-	-	7
MS Student Activities	1,058	10,595	13,689	(2,036)
MS Mall of America	924	-	528	396
MS Band Resale	904	-	1,028	(124)
MS Music Fund	2,885	14,624	11,692	5,817
Colo Publication	228	-	-	228
Elementary Student Pictures	990	805	295	1,500
Burg Publication	210	-	-	210
Elementary Student Activities	2,532	1,792	4,262	62
Malls 4 Schools	2,458	2,241	-	4,699
Interest	3,288	1,095	-	4,383
	58,586	130,444	120,630	68,400
Less interaccount transfers		(6,493)	(6,493)	
Totals	58,586	123,951	114,137	68,400

See notes to financial statements.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Statement of Changes in Assets and Liabilities

Agency Funds

Year ended June 30, 2004

	<u>Benevolence</u>	<u>Trees Forever</u>	<u>King Music Memorial</u>	<u>MS Library Fund</u>	<u>Playground</u>	<u>Nancy Dole Memorial Fund</u>	<u>Preschool Child Care</u>	<u>Memorial Fund</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance beginning of year	<u>1,010</u>	<u>148</u>	<u>436</u>	<u>1</u>	<u>2,339</u>	<u>250</u>	<u>-</u>	<u>18</u>	<u>4,202</u>
Additions:									
Contributions	<u>131</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,617</u>	<u>-</u>	<u>1,748</u>
Deductions:									
Miscellaneous	<u>370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>926</u>	<u>249</u>	<u>1,137</u>	<u>-</u>	<u>2,682</u>
Balance end of year	<u><u>771</u></u>	<u><u>148</u></u>	<u><u>436</u></u>	<u><u>1</u></u>	<u><u>1,413</u></u>	<u><u>1</u></u>	<u><u>480</u></u>	<u><u>18</u></u>	<u><u>3,268</u></u>

See accompanying independent auditor's report.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function

All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
General	1,792,277	1,771,496	1,607,699	1,536,773
Special revenue	130,839	140,308	140,040	219,564
Capital projects	416,128	-	-	-
	<u>2,339,244</u>	<u>1,911,804</u>	<u>1,747,739</u>	<u>1,756,337</u>
State sources:				
General	2,182,239	2,242,538	2,177,654	2,269,308
Special revenue	85	89	1,626	271
Enterprise	2,703	31,225	43,829	3,117
	<u>2,185,027</u>	<u>2,273,852</u>	<u>2,223,109</u>	<u>2,272,696</u>
Federal sources:				
General	158,876	148,015	92,112	80,325
Enterprise	65,417	66,078	68,437	64,512
	<u>224,293</u>	<u>214,093</u>	<u>160,549</u>	<u>144,837</u>
Total	<u><u>4,748,564</u></u>	<u><u>4,399,749</u></u>	<u><u>4,131,397</u></u>	<u><u>4,173,870</u></u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Colo-Nesco Community School District:

We have audited the financial statements of the Colo-Nesco Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 15, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Colo-Nesco Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed immaterial instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year comments have all been resolved, except for 04-II-K.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Colo-Nesco Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and no to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Colo-Nesco Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-I-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Colo-Nesco Community School District and other parties to whom Colo-Nesco Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Colo-Nesco Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

September 15, 2004

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

- 04-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- 04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, did not exceed the amended certified budget amount.
- 04-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 04-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 04-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 04-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

COLO-NESCO COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:
(continued) :

04-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

04-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

04-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

04-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

04-II-K Financial Condition - At June 30, 2004, the District's Student Activity Account had several deficit accounts, the School Nutrition Fund had net assets deficit of \$8,658 and the Child Care Fund had a net assets deficit of \$81,862. Substantial progress was noted during the past fiscal year.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits in order to return the District to a sound financial condition. Significant progress was noted in both funds during the current fiscal year.

Response - We will continue to monitor these accounts.

Conclusion - Response accepted.

WHO
Des Moines, IA 50309

The audit report of the Colo-Nesco Community School District financial statements as of June 30, 2004 has been released. A copy of the report is available at the District Secretary's office for inspection during normal business hours.

Sincerely,

Bruce D. Frink
Certified Public Accountant

Mid Iowa Enterprise
PO Box 634
State Center, IA 50247

The audit report of the Colo-Nesco Community School District financial statements as of June 30, 2004 has been released. A copy of the report is available at the District Secretary's office for inspection during normal business hours.

Sincerely,

Bruce D. Frink
Certified Public Accountant

NEWS RELEASE

FOR RELEASE

Bruce D. Frink, Certified Public Accountant, today released an audit report on the Colo-Nesco Community School District in McCallsburg, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

General Fund revenues for the year ended June 30, 2004, totaled \$4,329,899, and included \$1,792,277 in local tax, \$2,182,239 from the state, \$158,876 from the federal government and \$16,991 in interest on investments.

General Fund expenditures for the year totaled \$4,164,455, and included \$4,329,899 for Instruction, \$395,609 for Operation and Maintenance of Plant Services and \$510,860 for Administration Services.

This report contained recommendations to the Board of Education and District officials. The District has responded that corrective action is being taken on each item.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.